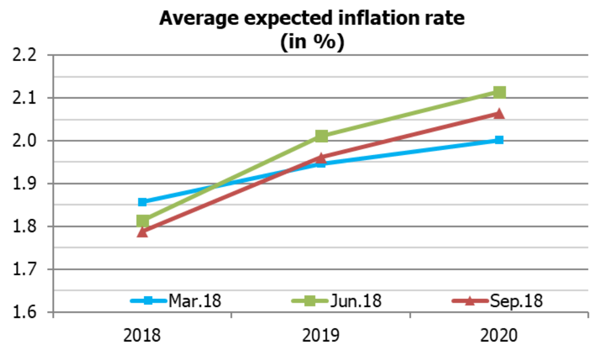
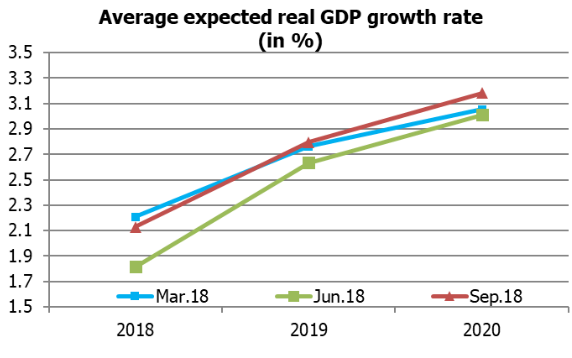
Survey on Inflation Expectations and Expectations for the Movement of the Real GDP

- September 2018 -

The Survey on Inflation Expectations and Expectations for the Movement of the Real GDP[1] for the period 2018 - 2020, conducted in September, does not suggest changes in the expectations for the average inflation rate. In terms of the expected GDP growth, the current survey shows improved expectations, an adjustment that economic analysts mainly explain by the higher performance of economic activity in the second quarter of the year.

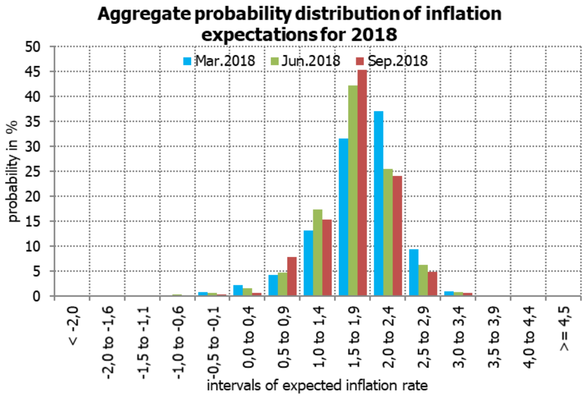
As in the previous survey, economic analysts expect a gradual acceleration in inflation and economic growth in the period 2018 - 2020. Thus, for 2018 they expect that the **average inflation rate** will be 1.8%, and then it will minimally accelerate to 2.0% and 2.1% in 2019 and 2020, respectively. Respondents explain the upward path of inflation for the next years by multiple factors such as higher minimum wage, higher prices of fuels and transport costs, alcoholic beverages and tobacco, expected growth of the price of oil on the world market, as well as the possible indirect effects of the measures of trade protectionism in global terms. Compared with the previous survey, differences in the expectations are insignificant. Observing the economic activity, the average expectations for the **real GDP growth** amount to 2.1%, 2.8% and 3.2% for 2018, 2019 and 2020, respectively. Respondents associate the recovery of the activity with the acceleration in the economic growth in the second quarter, relaxation of the monetary policy, the political stability, the increased outlook for an accelerated European and Euro-Atlantic integration, the investors' confidence, increase in both the investment and the export activity, the capital investments announced by the government, as well as with growth of private consumption associated with the growth of wages, lending and employment. In terms of the June survey, respondents have expectations for faster growth of the economy in the period from 2018 to 2020 (by 0.3 percentage points, 0.2 percentage points and 0.2 percentage points, respectively).

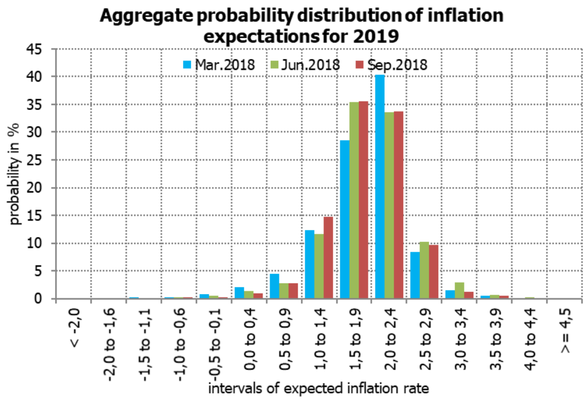


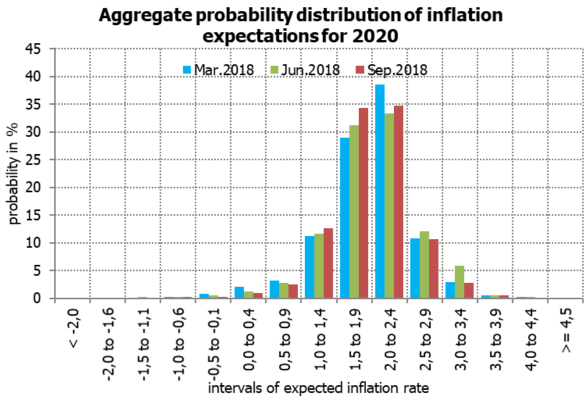


[1] In 2017, the National Bank of the Republic of Macedonia made a change to the "Survey on Inflation Expectations", which is renamed into "Survey on Inflation Expectations and Expectations for the Movement of the Real GDP" and whose new structure follows the Quarterly Survey of Professional Forecasters, https://www.ecb.europa.eu/stats/ecb_surveys/survey_of_professional_forecasters/html/index.en.html, conducted by the European Central Bank (ECB), and also changed the structure of the sample, which is now composed only of economic experts.

Besides the expected inflation rate and the GDP growth rate, within the Survey, respondents also give their own view on the **distribution of the likelihood of achieving certain rates in a given interval**. These assessments are used to make the aggregate distribution of the likelihood[2]. The aggregate distribution of the likelihood of achieving the given rates of inflation and GDP in fifteen intervals are shown on the following charts, and the results are mainly in line with the rates expected by the respondents.

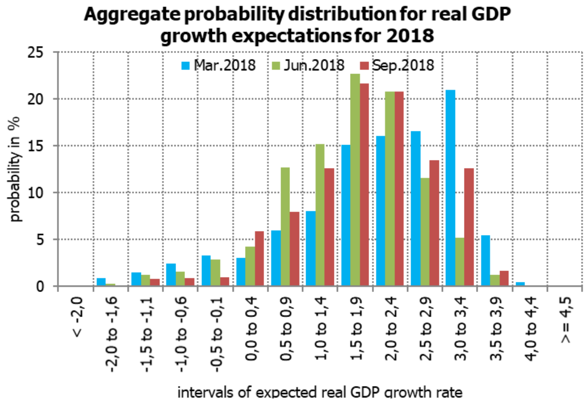


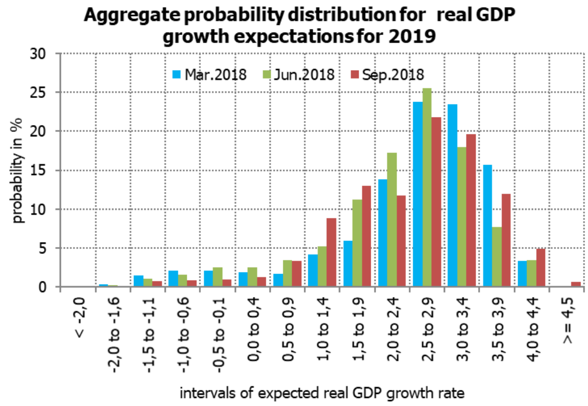


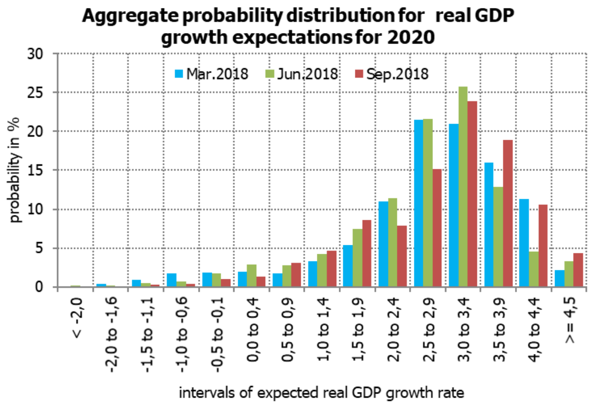


Besides the unchanged expectations for the average **inflation rate** for 2018, 2019 and 2020 compared to the previous survey, also the overview of the distribution, in terms of the average expected rate, does not suggest a significant shift in the likelihood compared to the previous survey.

[2] The aggregate distribution of the likelihood represents an average of the estimated likelihood by respondents for each interval of expected inflation rate and GDP growth rate.







The comparison of the **expected GDP growth rate** with the distribution of the likelihood indicates shifts in an upward direction, which is also consistent with the higher average expected growth rate for the period from 2018 to 2020.